

Decision 03-06-013 June 5, 2003

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Amended Application of San Diego Gas & Electric Company for a Reasonableness Review and Authorization to Transfer Certain Balances to the Company's Rewards and Penalties Balancing Account for Recovery. (U-902-M)

Application 00-07-022
(Filed July 10, 2000, amended
May 23, 2002)

**DECISION AUTHORIZING THE ELIMINATION
OF CERTAIN REDUNDANT BALANCING AND MEMORANDUM ACCOUNTS
AND THE RECOVERY OF OUTSTANDING ACCOUNT BALANCES IN THE
REWARDS AND PENALTIES BALANCING ACCOUNT**

Summary

San Diego Gas & Electric Company (SDG&E) seeks to effectively collect, with interest as of April 30, 2002, \$5.3 million from electric customers and refund \$12.7 million from gas customers by transferring the net over-collection of \$7.4 million to its Rewards and Penalties Balancing Account (RPBA). This decision allows SDG&E to recover these costs, which are deemed to be reasonable, for various balancing accounts and memorandum accounts. These accounts were previously deferred from Commission consideration in other proceedings and SDG&E was directed to file a separate application to address their disposition. In total, SDG&E may collect in electric rates a total of \$5.3 million,¹ plus accrued interest from April 30, 2002, for its:

¹ Account balances in Amended Application, Attachment F.

1. California Alternate Rates for Energy (CARE) Balancing Account Pre-1998 sub-account, \$84,500 over-collected, already recovered in Decision (D.) 99-06-058.
2. Demand-Side Management (DSM) Balancing Account, Pre-1998 sub-account, \$21,703,983 over-collected, already recovered in D.99-06-058.
3. Research, Development & Demonstration (RD&D) Balancing Account, Pre-1998 sub-account, \$4,120,314 over-collected, already recovered in D.99-06-058.
4. Electric Vehicle Adjustment Clause (EVAC) Balancing Account, \$3,563,442 under-collected.
5. Electric and Magnetic Fields Memorandum Account (EMFMA), \$570,769 under-collected.
6. Women/Minority/Disabled Veterans Business Enterprise (WMDVBE) Memorandum Account, \$606,493 under-collected.
7. PBR Consultant Service (PBRCS) Memorandum Account, \$336,852 under-collected.
8. Power Exchange Audit Memorandum Account (PXAMA), \$442,918 under-collected.
9. RD&D Balancing Account, Pre-1998 sub-account, \$213,433 over-collected interest adjustment.

SDG&E must refund to gas customers a total of \$12.7 million, plus accrued interest from April 30, 2002, for its:

1. DSM Balancing Account, Pre-1998 sub-account, \$13,812,068 over-collected, less \$768,000 estimated outstanding commitments.
2. WMDVBE Memorandum Account, \$208,428 under-collected.
3. PBRCS Memorandum Account, \$115,188 under-collected.

SDG&E may transfer the current balances in all of these accounts, further adjusted for interest to date, to its Rewards and Penalties Balancing Account (RPBA).

Procedural History

SDG&E filed its application on July 10, 2000, and amended the filing on May 23, 2002.² Notice of the original application appeared in the Commission's July 19, 2000, daily calendar. No party protested the original or amended application.

The Commission made a preliminary finding in Resolution ALJ 176-3042, that the category for this proceeding is ratesetting and determined that the matter did require hearings. We have considered our preliminary determinations and find that a hearing is not necessary.

Overall Finding of Reasonableness

No party contests SDG&E's expenditures for these accounts here or in prior proceedings. The only outstanding questions are whether the expenditures were reasonably incurred as a part of an otherwise approved or authorized regulatory program in order to be recovered in retail rates.³ The reasonableness of a transaction is found by examining what the utility knew at the time that it made a decision, and whether there was proper foresight, planning and the

² This was at the direction of the assigned Administrative Law Judge (ALJ).

³ Pub. Util. Code § 451. All charges demanded or received by any public utility, ...for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.

exercise of management control. It does not require perfect or even optimal results.⁴

The Commission's Office of Ratepayer Advocates (ORA) and the other ratepayer intervenor entities have declined to intervene here. It is not reasonable to allow SDG&E to recover these costs simply because the application is unopposed. Therefore, this decision must determine whether SDG&E has satisfactorily proven a prima facie case.

After reviewing the relevant prior decision for the various underlying programs, and the information provided by SDG&E on the matter, including the testimony, supplemental testimony and related work papers, we find SDG&E's actions to be reasonable with respect to the issues before us in this proceeding. As discussed below, SDG&E is ordered to transfer the current balances from the existing redundant balancing and memorandum accounts to the RPBA and eliminate them.

The Nature of Balancing Account and Memorandum Accounts

There is usually significant distinction between a balancing account and a memorandum account as used by the Commission. Both accounts are typically employed to ensure the accurate recovery of the actual cost of a regulatory program. The goal is to avoid the risk of over- or under-recovery in retail rates of reasonably incurred program costs. Balancing accounts⁵ have an associated

⁴ D.02-08-064 (200 Cal. PUC LEXIS 534; 219 P.U.R.4th 421), which in turn relied on D.87-06-021, D.88-03-036, D.89-02-074, and D.90-09-088.

⁵ "Balancing Accounts are accounts where expenses are compared with revenues from rates designed to recover those expenses; forecasted expenses are compared with recorded expenses or forecasted revenues are compared with recorded revenues. The

Footnote continued on next page

expectation of recovery. They have been pre-authorized by the Commission, and it is the amounts – and not the creation of the accounts themselves – that the Commission reviews for reasonableness.

Memorandum accounts,⁶ in contrast, are accounts in which the utilities record amounts for tracking purposes. While the utilities may later ask for recovery of the amounts in those accounts, recovery is not guaranteed.

With the passage of time this distinction does not always hold true for the “memorandum” accounts that are the subject of this proceeding because the underlying program content has been subject to Commission review and only the current program costs and any over- or under-collections are still subject to reasonableness review.

SDG&E’s Proposed Accounting Treatment

SDG&E proposes to transfer the net balance of all of the accounts with over- or under-collections, not previously transferred to other accounts, to its

resulting under or over-collection, plus interest, as described hereunder, is recorded on the utility’s financial statement as an asset or liability, which is owed from or due to the ratepayers. These balances are amortized in future rates, as approved by the Commission.” (SDG&E’s Preliminary Statement, tariff sheet 15067-E.)

⁶ “Such memorandum accounts shall be maintained in the same manner as the utility’s Commission-authorized balancing accounts in that interest, where the assessment of such is approved by the Commission, shall be recorded in the utility’s financial statements. However, all other recordings made to such memorandum account are subject to Commission review and shall not be placed into rates or any authorized balancing account until specifically authorized by the Commission.” (SDG&E’s Preliminary Statement, tariff sheet 15078-E.)

RPBA.⁷ This account essentially gathers together the net results of various authorized incentives for recovery from retail customers by adjusting, positively or negatively, the revenue requirement used to set retail rates. In prior years, the now defunct Electric Revenue Adjustment Mechanism (ERAM), was often used for this convenient function in addition to its primary function of ensuring precise recovery of the authorized base rates of SDG&E's electric department. One other alternative would be to set a separate rate for recovery or refund, but this is not necessary because the net balance transferred from RPBA will achieve the same goal. It is reasonable to use this account as the appropriate and expedient vehicle for recovery or refund of the accounts at issue.

The Final Disposition of the Accounts

SDG&E presents a "report" in the Attachments to its Amended Application for the accounts it wants to close. The format for the report includes: purpose, background, reasonableness review period, program results, status, and a conclusion. It is this information, along with prepared testimony and a set of work papers, which form the substance of SDG&E's prima facie case.

SDG&E refers to D.00-06-034 which addressed ratemaking after the rate freeze established in Assembly Bill (AB) 1890 (stats. 1996, ch. 856). Finding of Fact 63 states:

"SDG&E's proposals to eliminate various accounts after the rate freeze should be adopted. SDG&E's ratemaking proposals,

⁷ "Pursuant to CPUC D.97-10-057, dated October 22, 1997, and CPUC Resolution E-3588, dated February 18, 1999, the RPBA is established to track the utility's rewards, penalties and PBR revenue sharing." (SDG&E's Preliminary Statement, tariff sheet 13252-E.)

described in Exhibit 11, Chapter IV, that are consistent with this decision should be adopted.” (Mimeo, page 98.)

In A.99-02-029, SDG&E requested authority to close eight separate balancing and memorandum accounts.⁸ Exhibit 36 in this proceeding updated the testimony to include four of the specific accounts addressed in this application. SDG&E had anticipated the elimination of these accounts in a then-pending Revenue Allocation Proceeding (RAP), however the Commission, in D.99-06-058 declined to eliminate them without a reasonableness review. The ratemaking status of these accounts was the subject of the March 3, 2003 assigned ALJ Ruling Regarding the Clarification of Testimony. After considering SDG&E’s response of March 28, 2003, we find that the accounts in this proceeding should be resolved as proposed by SDG&E.⁹ We find the accounts in Exhibit 36 were properly the subject of Finding of Fact 63 in D.00-06-034 and are properly includable in the scope of this proceeding.

⁸ Exhibit 11 proposed the timely elimination of the Transition Revenue Account (TRA); Schedule RCM (Rate Cap Mechanism); Must-Run Costs Memorandum Account (MRCMA); Transition Cost Audit Memorandum Account (TCAMA); Independent System Operator Revenue Memorandum Account (ISORMA); Power Exchange Revenue Memorandum Account (PXRMA); ISO/PX Implementation Delay Memorandum Account (IPIDMA); and Rate Group Transition Cost Obligation Account (RGTCOMA).

⁹ Exhibit 36 identified the EVAC Balancing Account, EMF Memorandum Account, WMDVBE Memorandum Account, and PBR Consultant Services Memorandum Account to be recovered in a later application. D.00-06-034, in Finding of Fact 63, erroneously referred only to Exhibit 11 and not to Exhibit 36.

1. Pre-1998 Sub-accounts

The over-collected balances ¹⁰ were transferred to the Transition Cost Balancing Account (TCBA) as a part of using all-available revenues to end the rate freeze for SDG&E.¹¹ These programs have been the subject of regular proceedings and their procedures reviewed in depth over past years. Only a detailed audit by ORA or an independent consultant, would find intentional or unintentional errors in the balances in these accounts. Although an audit has not been done in this instance, SDG&E has shown that it kept detailed contemporaneous records and we have reviewed the work papers. We find the pre-1998 balances to be reasonable for recovery or refund to customers in retail rates. These pre-1998 sub-accounts should be eliminated. The pre-1998 gas sub-account balances associated with the DSM and RD&D are also reasonable. These accounts should be eliminated as well.

2. EVAC Balancing Account

D.97-10-057 allowed the electric vehicle programs to be included in electric distribution rates and SDG&E requested to eliminate the EVAC balancing Account in its 1999 Cost of Service Application. D.98-12-038 approved the elimination but deferred the issue of whether the outstanding account balance was reasonably incurred to the 1998 Revenue Allocation Proceeding (RAP) where the Commission again declined to address the issue in D.99-06-058 until

¹⁰ The pre-1998 sub-accounts of the CARE Balancing Account, the DSM Balancing Account, and the RD&D Balancing Accounts.

¹¹ D.99-06-058, see Findings of Fact 19 and 20, Conclusions of Law 11 and 12 and Ordering Paragraph 3. This authority also extended to the DSM and RD&D accounts in this proceeding.

there was a reasonableness review, elsewhere. An audit has not been done. This account is now in this proceeding for the consideration of the reasonableness of SDG&E's operation of the EVAC program. SDG&E seeks to recover \$3.56 million, plus accrued interest.

After reviewing the prior decisions on the program and work papers filed on the matter, we find SDG&E's actions to be reasonable. SDG&E should transfer the balance to the RPBA and it may now eliminate the EVAC balancing Account.

3. EMFMA

SDG&E was ordered by D.93-11-013 to participate in a stakeholder and public involvement process for EMF research and education led by the California

Department of Health Services (DHS), and to fund an experimental research program conducted under the National Energy Policy Act of 1992. The Commission authorized the elimination of this account in D.00-06-034 but declined to allow recovery until completion of a reasonableness review. This account is now in this proceeding for consideration of the reasonableness of SDG&E's participation in the EMF study programs. SDG&E seeks to recover \$0.57 million, plus accrued interest.

After reviewing the prior decision on this program, the testimony presented and associated work papers, we find SDG&E's actions to be reasonable. SDG&E should transfer the balance to the RPBA and eliminate the EMFMA Memorandum Account.

4. WMDVBE Memorandum Account (Electric and Gas)

This account was originally created to record the costs allocated to SDG&E for a WMDVBE "clearinghouse" created to verify the eligibility of businesses that were signing service and supply contracts with utilities for classification as a WMDVBE-owned business. Beginning in 1999 the costs have been included in SDG&E's cost of service rate proceeding. SDG&E has filed annual reports with the Commission since 1993 covering the review period 1993-1998. SDG&E has shown that it kept detailed contemporaneous records, which we have reviewed. We find the pre-1998 balances to be reasonable for recovery in retail rates. These pre-1998 sub-accounts should be eliminated.

5. PBRCS Memorandum Account (Electric and Gas)

These accounts tracked the costs of an expert consultant that reviewed experimental performance based incentive mechanisms adopted for SDG&E. Commission staff managed the consultants and the consultants presented an interim report in 1995 and a final report in 1996. Staff to the Commission has not

objected to the recovery of these costs. SDG&E has shown that it kept detailed contemporaneous records, which we have reviewed. We find the balances to be reasonable for recovery in retail rates. These accounts should be eliminated.

6. PXAMA

This account tracked the costs of an expert consultant that reviewed SDG&E's monthly calculation of the Schedule PX costs. Schedule PX was a ratesetting mechanism that on a monthly basis calculated the utility's cost of electricity procurement. This calculation was used to "credit" (reduce) the frozen-rate bill for those customers who purchased their electricity commodity from a non-utility energy service provided (ESP). The credit offset the cost of utility-procured energy to only serve "full-service" customers that was otherwise included in the frozen retail rates.¹³ Commission staff managed the consultant and the consultant prepared detailed reports for the Commission. Commission staff has not objected to the recovery of these costs. SDG&E has shown that it kept detailed contemporaneous records, which we have reviewed. We find the balances to be reasonable for recovery in retail rates. This account should be eliminated.

Comments on Draft Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code, the otherwise applicable 30-day period for public review and comment is being waived.

¹³ See generally D.99-06-058, for the authorization of the audit and its scope.

Assignment of Proceeding

Susan P. Kennedy is the Assigned Commissioner¹⁴ and Douglas M. Long¹⁵ is the assigned ALJ in this proceeding.

Findings of Fact

1. This proceeding does not require hearings.
2. D.00-06-034 did contemplate the elimination of the specific balancing and memorandum accounts that is sought in this application.
3. The accounts that are proposed for elimination are no longer necessary for ongoing ratemaking purposes.
4. ORA did not participate in this proceeding and therefore did not conduct an audit.
5. SDG&E provided sufficient information in its amended application, prepared testimony and work papers to make a prima facie case for the recovery or refund of outstanding balances and the elimination of the redundant accounts.

Conclusions of Law

1. SDG&E presented a prima facie case that specified balancing and memorandum accounts are redundant and should be eliminated, and the account balances should be transferred to the RPBA.
2. The RPBA is a reasonable ratemaking device to recover or refund the account balances.
3. The sub-account balance transfers today are reasonable.

¹⁴ On January 16, 2003, the application was reassigned from Commissioner Henry M. Duque to Commissioner Susan P. Kennedy.

¹⁵ On November 20, 2002, the application was reassigned from ALJ Sarah Thomas to ALJ Douglas Long.

4. This order should be effective today to allow the tariff provisions to be implemented expeditiously.

5. This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code, the otherwise applicable 30-day period for public review and comment is being waived.

O R D E R

IT IS ORDERED that:

1. We modify the preliminary determination made in Resolution ALJ 176-3043 and make a final determination that evidentiary hearings are not required in this proceeding.

2. San Diego Gas & Electric Company (SDG&E) shall transfer the current balances with interest to-date in all of the balancing and memorandum accounts discussed in this decision to its Rewards and Penalties Balancing Account.

3. SDG&E shall eliminate the balancing or memorandum accounts, no longer necessary, as described herein for the Electric Vehicle Adjustment Clause, Electric and Magnetic Fields Memorandum Account, the Women, Minority, and Disabled Veterans Business Enterprises Memorandum Accounts, and the Performance Based Ratemaking Consultant Services Memorandum Accounts.

4. SDG&E shall file a compliance advice letter with the Energy Division as well as copies of the accounting entries and sufficient work papers to verify the amounts transferred included the correct calculation of interests within 30 days of the mailing date of this decision.

5. This proceeding is closed.

This order is effective today.

Dated June 5, 2003, at San Francisco, California.

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners